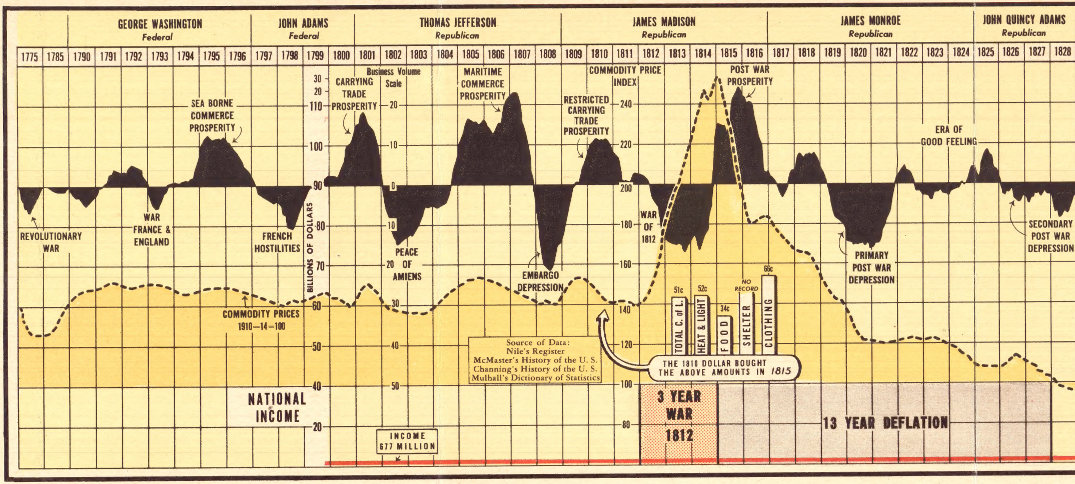
BUSINESS BOOMS & DEPRESSIONS

SINCE 1775



PRICE INFLATION

The effect of price inflation on the *buying power* of the *cost-of-living dollar* before, during and after war periods is clearly revealed in this chart. The similarity of the reactions during each of the major wars in America is shown by the use of special pillars injected into the over-all commodity areas. (See GOLD shaded areas 🟨 bound by the dashed line)

Each war has been treated separately in arriving at these figures; that is, we have taken each base where the dollar bought one hundred cents' worth of goods and services as in 1810. In 1814-15 we have the buying power of the 1810 dollar *inflated*. This buying power, you will note, has been *considerably reduced*.

The same pattern is carried out during the Civil War period with 1860 as the base and 1865 as the inflated dollar. This same arrangement of data applies in World War I. Note here that the inflation peak was reached almost two years after the war was over.

In this War we take 1939 as the one hundred-cent dollar and show its shrinkage as of June 30, 1942. (This movement may be followed and checked for the duration and after by securing the monthly data from the Bureau of Labor Statistics, Washington, D. C.— also available at many public libraries).

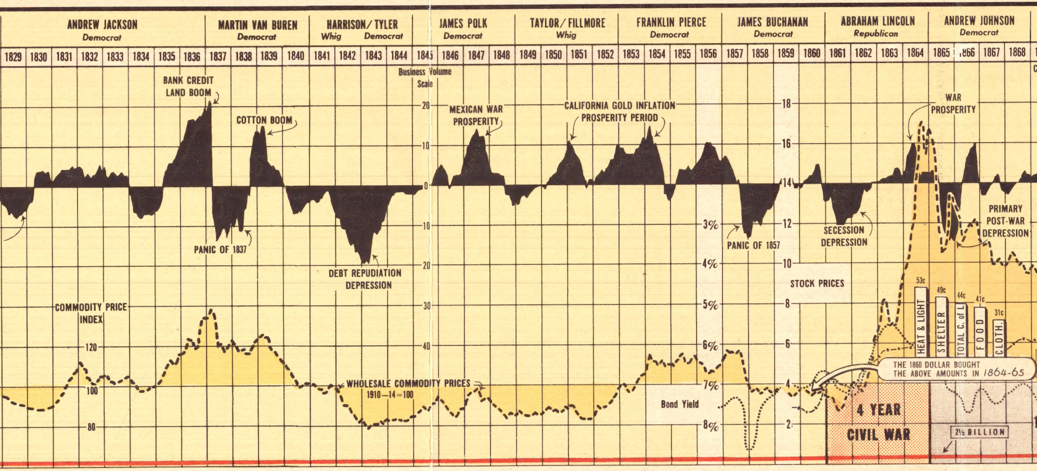
For quick comparison of all this data, see table titled "What War Does to the Cost-of-Living Dollar."

The cost-of-living dollar seems to dominate the whole inflation picture because of two basic costs involved: namely, labor (wages and salaries) and food (subsistence and products of the soil). These two are a part of all prices of all products from guns to butter. *Labor produces guns and food feeds labor.*

From here on the law of supply and demand takes command, because of the abnormal and excessive demands of war on both labor and food, both are being bid for, one bid raises the other. Increased earning power and a surplus of money demanding non-essentials, causes hoarding, speculation, profiteering and waste to creep in, forcing prices upward until finally reaching a peak. (See years — 1815, 1864-5, 1920.) The buying power of money declines. The cost of conducting the war is increased. People with fixed incomes are squeezed unmercifully — the low income group barely exists.

Then, as inflation passes the peak, its visionary advantages and gains are wiped out by the sudden drop of the inflated dollar. When this drop took place after the last war in 1920-21, it cost the American business men over 11 billion dollars in depreciated inventory values. Mercantile failures jumped from 5,983 in 1918 to 19,655 in 1921 and 23,048 in 1922.

It is difficult to realize the magnitude of this war and the factors involved. We can, in a measure, conceive the vast amount of money required this time by comparing the over-all cost of the last war, which is estimated to be around 44 billion dollars with the latest figures released by the War Production Board on appropriations and proposed appropriations for this war which show the total of its fin-



Should prices advance only 20 per cent in this expenditure, it would *increase the cost* of this war around 44 billion dollars, or an amount equal to the *total cost* of the last war. Much of this total expenditure will become a part of the Federal Debt which will have to be *paid* in both principal and interest *with deflated dollars* in years to come.

The *necessary cost* of this war right now is not important. Victory is worth its cost. Whatever the cost to the future citizens is, they will get their money's worth in benefits derived. This does not and can not mean, however, that we should jeopardize the peace that will follow by an economic smash-up.

It would be unreasonable to suppose that the present war could be conducted without some effects of inflation. We already have it in a mild form. The threat however, of a post war inflation is very real. The most important period lies between now and its ultimate peak. We can in this interval, endeavor to curb, to control and to level it off. From the efficiency of this effort will come the results that will form the back-drop of our whole future economic life.

It is reasonable to believe that the American people as a whole are not only willing but eager to co-operate in every way in this battle against inflation — a task almost as great as winning the war itself. They have not forgotten the misery and mental anguish caused by the deepest, darkest depression known to man, and many still remember the bitter lessons that were taught during the long period of deflation following the last war. (See GREY shaded deflation areas ▨)

(Source of Data: See above Chart — Carnegie Endowment for International Peace.

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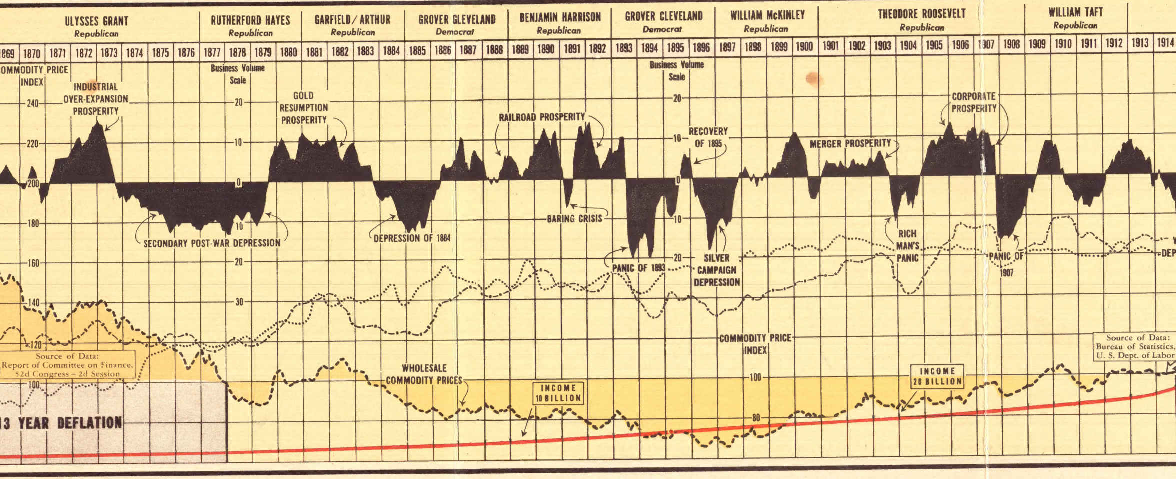


Source of Data:
Report of Committee on Finance,
52d Congress – 2d Session

Source of Data:
Bureau of Statistics,
U. S. Dept. of Labor

Stocks may depre-
so long as a home
man and his family.

T PRODUCTS

NESOTA

WHAT WAR DOES TO THE COST OF LIVING DOLLAR

Peak Year = Actual Buying Power of Inflated Dollar.* Base Year = 100 cents.					
Peak Inflation Year	*	1815	1864-5	1920	1942 (June)
Food	*	34c	41c	44c	81c
Clothing	*	66c	31c	33c	79c
Heat and Light	*	52c	53c	59c	95c
Shelter	*	No Record	49c	77c	91.5c
Total Cost of Living	*	51c	44c	48c	86c
Base or Normal Year		1810	1860	1914	1939 (June)
Time from Base to Peak		5 years	5 years	6 years	3 years Peak not reached

The above four basic necessities of life represent 76c of each family cost of living dollar. The balance or 24c is spread over medical and personal care, transportation, amusement, tobacco, education, church, gifts and taxes. Source of Data — See Above Chart.

NATIONAL INCOME

How price inflation affects our National Income is revealed in recent reports from the Department of Commerce (See ORANGE line on the chart ▬)

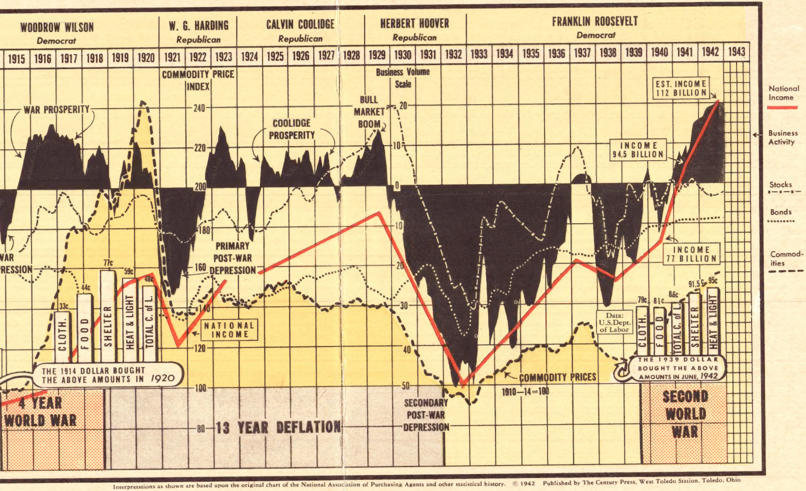
In 1941 the National Income rose to 94.5 billion dollars from 77 billion in 1940. About one-third of this advance was the result of higher prices. In terms of 1940 prices, the income for 1941 was 89 billion dollars (See the following graph for comparison).

The largest gains in National Income for 1941 were in construction, agriculture, and manufacturing. Income originating from agriculture expanded 40 per cent. A large portion of this advance also was the result of higher prices rather than increased output.

The anticipated National Income for 1942 is around 112 billion dollars. Of this amount it is estimated that the wage and salary share will be 75 billion dollars. This sum is 5 billion dollars more than the *total* 1939 income of 70 billion dollars. This latter figure shows that, since 1939, the American people will have increased their income by 42 billion dollars which they may spend, save, pay debts and taxes.

Purchases of war bonds and stamps rose from an annual rate of 2.8 billion dollars in the second quarter of 1941 to 7.0 billion in the corresponding period of this year. Some of this increase represents new saving. Source: Survey of Current Business.

By special arrangement, additional copies of this chart are available for classroom use. For information, please write direct to The Century Press,
ing "The Weyerhaeuser Chart."



Interpretations as shown are based upon the original chart of the National Association of Purchasing Agents and other statistical history.

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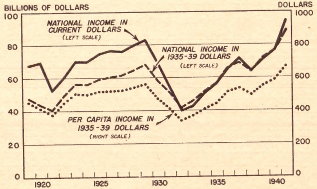
NATIONAL INCOME DOLLARS



National Income in Current and 1935–39 Dollars, and Per Capita Income in 1935–39 Dollars, (U. S. Department of Commerce).

BUSINESS ACTIVITY

War production continues to expand. There are 6.5 million more people employed in non-agricultural establishments now than in 1939. This expansion will continue as long as more labor hours, more machines, more raw material are available. No one can say when this peak will be reached.

The percentages of the total Industrial Production Index (mid-year 1942) stand as follows: Durable Goods, 52%— Non-Durable Goods, 36.7% and Minerals 11.3%. Durable goods industries will dominate the scene for the duration.

The business volume scale has reached the highest peak in 105 years (see year 1837) and another *boom* becomes a permanent record on this chart.

STOCKS: War news, the tax situation and a lack of information on quarterly earnings and size of contracts let by the government, all tend to keep stock prices moving within a narrow range. (See CHAIN LINE -·-·-·)

BONDS: Low interest rates prevail because of continual over-supply of money in the money market. War bonds are replacing other normal forms of consumer saving. (See DOTTED LINE ········)